

# FISCAL NOTE

**Bill #:** SB472

**Title:** Reduce rate of severance tax on coal

**Primary Sponsor:** Fred Thomas

**Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

### Expenditures:

State Special Revenue

**FY 2004**

### Difference

(\$4,411,354)

**FY 2005**

### Difference

(\$4,382,539)

### Revenue:

General Fund

(\$5,642,518)

(\$5,360,654)

State Special Revenue

(\$4,411,354)

(\$4,382,539)

Trust Funds

(\$10,586,563)

(\$9,922,057)

**Net Impact on General Fund Balance:**

(\$5,642,518)

(\$5,360,654)

- |                                                                                                                                                                                            |                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact<br><input type="checkbox"/> Included in the Executive Budget<br><input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns<br><input checked="" type="checkbox"/> Significant Long-Term Impacts<br><input checked="" type="checkbox"/> Needs to be included in HB 2 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## Fiscal Analysis

### ASSUMPTIONS:

- Under current law, coal from surface mines is taxed at 10% if its heat content is under 7,000 BTU per pound and at 15% otherwise. Coal from underground mines is taxed at 3% if its heat content is under 7,000 BTU per pound and 4% otherwise. This bill would reduce the rates to 3.34% for coal under 7,000 BTU from surface mines, 5% for other coal from surface mines, 1% for coal under 7,000 BTU from underground mines, and 1.3% for other coal from underground mines. All coal production during the 2005 biennium is projected to be from surface mines. Table 1 shows the calculation of projected severance tax revenue under current law, under this bill, and the differences.

Table 1  
Coal Severance Tax Collections - Current Law and SB472

	Taxable Value	Current Law Tax	Tax Under SB472	Difference
<b>FY2004</b>				
Surface Coal < 7,000 Btu	\$ 2,533,661	\$ 253,366	\$ 84,624	\$ (168,742)
Surface Coal > 7,000 Btu	\$ 202,292,618	<u>\$ 30,343,893</u>	<u>\$ 10,114,631</u>	<u>\$ (20,229,262)</u>
Total Tax		\$ 30,597,259	\$ 10,199,255	\$ (20,398,004)
<b>FY2005</b>				
Surface Coal < 7,000 Btu	\$ 2,533,432	\$ 253,343	\$ 84,617	\$ (168,727)
Surface Coal > 7,000 Btu	\$ 189,489,102	<u>\$ 28,423,365</u>	<u>\$ 9,474,455</u>	<u>\$ (18,948,910)</u>
Total Tax		\$ 28,676,709	\$ 9,559,072	\$ (19,117,637)

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Coal severance tax collections are allocated to nine accounts, three of which are subfunds of the coal severance tax trust fund. Table 2 shows the percentage of collections allocated to each account, revenue to each account under current law, under this bill, and the differences.

Table 2 Coal Severance Tax Allocation - Current Law and SB472							
Account		Current Law		SB472		Difference	
		FY2004	FY2005	FY2004	FY2005	FY2004	FY2005
Coal Tax Trust Fund							
Permanent Fund	12.50%	\$ 3,824,657	\$ 3,584,589	\$ 1,274,907	\$ 1,194,884	\$ (2,549,750)	\$ (2,389,705)
Treasure State Endowment Fund	25.00%	\$ 7,649,315	\$ 7,169,177	\$ 2,549,814	\$ 2,389,768	\$ (5,099,501)	\$ (4,779,409)
Regional Water System Fund	12.50%	\$ 3,824,657	\$ 3,584,589	\$ 1,274,907	\$ 1,194,884	\$ (2,549,750)	\$ (2,389,705)
Long Range Building Program Acct	12.00%	\$ 3,671,671	\$ 3,441,205	\$ 1,223,911	\$ 1,147,089	\$ (2,447,760)	\$ (2,294,116)
Local Impacts Account	7.75%	\$ 2,371,288	\$ 2,222,445	\$ 790,442	\$ 740,828	\$ (1,580,845)	\$ (1,481,617)
Parks Trust Fund	1.27%	\$ 388,585	\$ 364,194	\$ 129,531	\$ 121,400	\$ (259,055)	\$ (242,794)
Renewable Resource Loan Debt Svce	0.95%	\$ 290,674	\$ 272,429	\$ 96,893	\$ 90,811	\$ (193,781)	\$ (181,618)
Cultural & Aesthetic Trust Fund	0.63%	\$ 192,763	\$ 180,663	\$ 64,255	\$ 60,222	\$ (128,507)	\$ (120,441)
General Fund	27.40%	\$ 8,383,649	\$ 7,857,418	\$ 2,794,596	\$ 2,619,186	\$ (5,589,053)	\$ (5,238,232)
Total		\$ 30,597,259	\$ 28,676,709	\$ 10,199,255	\$ 9,559,072	\$ (20,398,004)	\$ (19,117,637)

- This bill reduces deposits to several trust funds, which will reduce interest earnings on those trusts. In a fiscal year, the average balance in a trust fund is the beginning balance plus each of the deposits multiplied by the fraction of the year remaining when it is deposited. Coal severance tax is paid quarterly, within 30 days of the end of each quarter. The quarterly deposits occur with 8, 5, 2 and 0 months remaining in the fiscal year. The average balance of one of the subfunds of the coal tax trust fund therefore is the beginning balance plus 5/16ths of the total deposits ( $5/16 = 1/4 \times 8/12 + 1/4 \times 5/12 + 1/4 \times 2/12 + 1/4 \times 0$ ).

Table 3 SB472 Impact on Trust Fund Earnings								
	Difference in Deposits		Difference in Average Balances		Interest Rates		Difference in Interest	
	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005	FY2004	FY2005
Permanent Fund	\$(2,549,750)	\$(2,389,705)	\$ (796,797)	\$(1,802,968)	6.71%	6.79%	\$ (53,465)	\$(122,422)
Treasure State Endowment Fund	\$(5,099,501)	\$(4,779,409)	\$(1,593,594)	\$(3,605,936)	6.84%	6.90%	\$(109,002)	\$(248,810)
Regional Water System Fund	\$(2,549,750)	\$(2,389,705)	\$ (796,797)	\$(1,802,968)	8.97%	8.70%	\$ (71,473)	\$(156,858)
Parks Trust Fund	\$ (259,055)	\$ (242,794)	\$ (80,955)	\$ (183,182)	6.94%	7.05%	\$ (5,618)	\$ (12,914)
Cultural & Aesthetic Trust Fund	\$ (128,507)	\$ (120,441)	\$ (40,159)	\$ (90,870)	7.16%	7.27%	\$ (2,875)	\$ (6,606)

- Table 3 shows the reductions in trust fund earnings in fiscal years 2004 and 2005 that would result from the reduced severance tax rates. Interest from the coal severance tax permanent fund is deposited in the general fund.
- The bill does have significant reductions as the revenue flow to the trust funds or to the state special revenue funds is reduced by two-thirds. This impacts many state programs including the Treasure State Endowment Program, the Regional Water Program, Long Range Building Program, and the Local Impact Account (MT Library Commission, Conservation Districts, Growth Thru Ag, Coal Board). Because of the reductions in revenue flow to the state special revenue accounts, a corresponding reduction in expenditures is needed.

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(continued)

FISCAL IMPACT:

Expenditures:

	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
General Fund (01)	\$0	\$0
State Special Revenue (02)		
Long Range Building Program	(\$2,447,760)	(\$2,294,116)
Local Impacts Account	(\$1,580,845)	(\$1,481,617)
Renewable Resource Loan Debt Service	(\$193,781)	(\$181,618)
Treasure State Endowment Program	(\$109,002)	(\$248,810)
Regional Water System Program	(\$71,473)	(\$156,858)
DFWP - Parks Acquisition	(\$5,618)	(\$12,914)
Cultural & Aesthetic Projects Account	(\$2,875)	(\$6,606)
Trust Funds (09)	\$0	\$0

Revenues:

General Fund (01)	\$(5,642,518)	\$(5,360,654)
State Special Revenue (02)		
Long Range Building Program	\$(2,447,760)	\$(2,294,116)
Local Impacts Account	\$(1,580,845)	\$(1,481,617)
Renewable Resource Loan Debt Service	\$(193,781)	\$(181,618)
Treasure State Endowment Program	\$(109,002)	\$(248,810)
Regional Water System Program	\$(71,473)	\$(156,858)
DFWP - Parks Acquisition	\$(5,618)	\$(12,914)
Cultural & Aesthetic Projects Account	\$(2,875)	\$(6,606)
Trust Funds (09)		
Coal Severance Tax Permanent Fund	\$(2,549,750)	\$(2,389,705)
Treasure State Endowment Fund	\$(5,099,501)	\$(4,779,409)
Regional Water System Fund	\$(2,549,750)	\$(2,389,705)
Parks Trust	\$(259,055)	\$(242,794)
Cultural & Aesthetic Trust	\$(128,507)	\$(120,441)

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$(5,642,518)	\$(5,360,654)
State Special Revenue (02)		
Long Range Building Program	\$0	\$0
Local Impacts Account	\$0	\$0
Renewable Resource Loan Debt Service	\$0	\$0
Treasure State Endowment Program	\$0	\$0
Regional Water System Program	\$0	\$0
DFWP - Parks Acquisition	\$0	\$0
Cultural & Aesthetic Projects Account	\$0	\$0
Trust Funds (09)		
Coal Severance Tax Permanent Fund	\$(2,549,750)	\$(2,389,705)
Treasure State Endowment Fund	\$(5,099,501)	\$(4,779,409)
Regional Water System Fund	\$(2,549,750)	\$(2,389,705)
Parks Trust	\$(259,055)	\$(242,794)
Cultural & Aesthetic Trust	\$(128,507)	\$(120,441)

## **Fiscal Note Request SB472, As Introduced**

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### EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill would reduce the coal severance tax allocation to local governments by \$1.581 million in fiscal 2004, by \$1.482 million in fiscal 2005, and by about \$1.5 million in each following fiscal year.

### LONG-RANGE IMPACTS:

The reductions in severance tax revenue from this bill would be permanent. The reductions in interest earnings would grow over time.

### TECHNICAL NOTE:

Outstanding coal severance tax bond debt service is approximately \$6 million per year over the biennium. When the state issued CST bonds a pledge was made to collect sufficient revenue such that annually an amount equal to one years debt service is deposited into the coal severance tax bond account. A two-thirds reduction to the tax may result in revenue collections falling below this \$6 million level. If this occurs it would be an impairment of the contract held by bondholders and as such would be unconstitutional.